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C O N F I D E N T I A L SECTION 01 OF 02 MADRID 000756

SIPDIS

FOR EB/ODF, EB/IRAQ, NEA/NGA, EUR/WE

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TAGS: [EAID](#) [ECON](#) [EFIN](#) [ETRD](#) [IZ](#) [SP](#)

SUBJECT: BETTER INFORMING SPANISH ON IRAQ RECONSTRUCTION CONTRACTING PROCESS

REF: A. MADRID 520

[B. PRAGUE](#) 145

[C. GARBER-ZIMMERMAN](#) E-MAILS

Classified By: Economic Counselor Judy Garber: Reasons 1.4 (b) and (d).

**¶11. (C) Summary:** Following up on our February 12 meeting with Ministry of Economy contacts (ref A), we met March 4 with Enrique Navarro, who is spear-heading Ministry of Defense efforts to help Spanish business get Iraq reconstruction contracts. We shared lessons learned from the January 2004 Czech business delegation to Iraq (ref B) and encouraged the Spanish to strongly consider a similar visit. Navarro confirmed that a political decision had been made to turn down the proposed visit to Madrid by CPA Private Sector Development Director Tom Foley until after the March 14 general election, but said the Spanish are keen to have the Foley team come to Spain as soon as possible thereafter. Navarro emphasized Spanish government and business bitterness over the decision to award a \$327 million contract to equip the Iraqi Armed Forces to U.S. company Nour (ref A). Navarro believes, however, that the USG's subsequent suspension and current review could open the door for a decision in favor of a Polish-led consortium to include Spanish, Romanian and Ukrainian firms (see para 5). We recommend that CPA consider sending a team to Madrid in late March/early April and encourage prime contractors to hold briefing sessions in Madrid for Spanish companies interested in subcontracting opportunities. End summary.

**¶12. (U) Econoffs** met March 4 with Enrique Navarro of Isdefe, a group created by the Ministry of Defense to help Spanish firms compete for military-related contracts. Navarro was selected by Spanish Commissioner for Iraq and State Secretary of Defense Fernando Diez Moreno as the point-person for pursuing contracting opportunities in Iraq.

Helping Businesses Get into Iraq

**¶13. (C)** We related the positive experience and lessons learned from the Czech business delegation to Baghdad and suggested the Spanish consider doing something similar to improve the chances of winning Iraq contracts. Navarro agreed a trip would be useful, particularly prior to the handover of authority at the end of June. We also mentioned our understanding that CPA Private Sector Development Director Tom Foley was still prepared to come to Spain to brief Spanish business on contracting opportunities and procedures, as he did recently in Warsaw and Rome. Navarro acknowledged that the GOS decision not to accept a Foley team visit before the elections was political, but was enthusiastic about a visit as soon as possible after the elections (note: when pressed, Navarro averred that a visit could take place even before a new political team is formed, and regardless of which party leads the new government). We suggested that Navarro contact Foley as soon as possible to discuss potential dates and arrangements. We also undertook to give Navarro more information about how the Foley team visits were organized in Poland and Italy. Finally, Navarro requested that at least one of the companies allocated prime contracts later this month under the next \$8.2 million tranche of pledged aid hold a session in Madrid for possible subcontractors, similar to what Bechtel did in London last November.

Spanish Still Hope to Get Contract to Equip Iraqi Forces

**¶14. (SBU)** Navarro related strong Spanish government and business disillusionment with the contracting process so far. Not only have Spanish companies been largely unsuccessful in getting contracts, but in one of the few cases in which a Spanish firm won (Defex, awarded a contract in November 2003 to equip Iraqi police), the contract has yet to be formally signed.

**¶15. (C)** But the crowning glory for the Spanish was the February 2004 decision to award the contract for equipping the Iraqi armed forces to U.S. group Nour. As made clear in letters Fernando Diez Moreno sent to both DOD Comptroller Dov Zakheim and the Ambassador (ref C), the Spanish feel that their bid (organized by Isdefe) was right on the mark, and that the contract bidding and evaluation process was seriously flawed. Navarro recognized that the U.S. had since

suspended the contract for review. He compared favorably the Spanish approach of mildly protesting the contract decision to Zakheim and the Ambassador versus the vociferous public and more formal complaints of the Polish and Jordanian bidders. He reported he is in close contact with the Polish Bumar Group, and that Bumar and the Spanish consortium were joining forces, perhaps to include Romanian and Ukrainian groups, in the hopes of winning the contract under review when re-bid. Navarro argued that a contract as important as the equipping of the Iraqi forces could not be left solely to private firms, and a consortium led by two state-run consortiums (Bumar and Isdefe) would ensure the job was done, and done well.

16. (C) Navarro reiterated the now familiar complaint that working over the Internet was impractical and difficult for Spanish companies. He also claimed that the time between RFP publication and bid due dates was implausibly short. He raised the problem businesses face during the interim administration of Iraq concerning the legal continuity of contracts they may sign. Navarro also admitted that overly optimistic initial GOS messages helped create the false impression that Spanish companies would get preferential treatment in the contracting process, acknowledging that the Spanish private sector's malaise *visa-a-vis* Iraq was partially of the GOS' own making. In his own view, however, a continued lack of Spanish business in Iraq would likely weaken Spain's long-term political commitment to Iraq.

#### Comment and Recommendation

17. (C) Navarro and the GOS are under pressure to "show the beef" to both Spanish business and the public in concrete Spanish contracts for Iraq reconstruction. Spanish officials are frustrated with what they see as a difficult and flawed contracting process, Spanish firms' lack of success to date, and their own inability to manage public expectations. Election politics have complicated the picture further.

18. (C) Our recommendation is that CPA strongly consider sending a team to Madrid following the March 14 elections to further explain contracting opportunities. We also support Navarro's call for one or more prime contractors to visit Spain to present subcontracting options, as well as a subcontracting presentation CPA/PMO may organize in Madrid. While we clearly cannot pull a rabbit out of the hat for the GOS (or Spanish business), we can do our best to make sure they receive the information that will aid their quest for reconstruction contracts.

ARGYROS